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Recent Developments in U.S. Trademark, Copyright and Semiconductor Chip Anticounterfeiting Laws

I. INTRODUCTION

Manufacturers currently view product counterfeiting as a greater threat to their economic interests than theft.¹ As a result of the counterfeiters' use of deception, legitimate manufacturers' profits are depleted, and the distribution of poor quality copies results in damage to their reputation and loss of good will. Several federal laws exist to protect trademark and copyright owners. This article will examine: the Lanham Trademark Act (Lanham Act)² which provides a federal registration system for trademarks, and, in conjunction with the supplementing Trademark Counterfeiting Act of 1984,³ establishes civil and criminal penalties for trademark counterfeiting; the Piracy and Counterfeiting Amendments Act of 1982⁴ which enhances the civil and criminal remedies of the Federal Copyright Act⁵; and the Semiconductor Chip Protection Act of 1984,⁶ which establishes civil remedies to protect the United States' important computer chip industry. This comment will discuss some of the counterfeiting problems in these areas, and examine remedial aspects of the federal laws involved.

II. TRADEMARKS

A. *The Lanham Trademark Act*

Until recently, remedies for trademark infringement were basi-

1. U.S. INTERNATIONAL TRADE COMMISSION, THE EFFECTS OF FOREIGN COUNTERFEITING ON U.S. INDUSTRY vii (1984) [hereinafter cited as TRADE COMMISSION REPORT].

2. The Lanham Trade-Mark Act, 15 U.S.C. §§ 1051-1127 (1976).

3. The Trademark Counterfeiting Act of 1984, 15 U.S.C. § 1117(b) (Supp. II 1984), 18 U.S.C. § 2320 (Supp. II 1984).

4. The Piracy and Counterfeiting Amendments Act, 17 U.S.C. § 506(a) (1982) which incorporates by reference 18 U.S.C. § 2319 (1982).

5. The Federal Copyright Act is codified at 17 U.S.C. §§ 101-914 (1982 & Supp. II 1984).

6. The Semiconductor Chip Protection Act of 1984, 17 U.S.C. §§ 901-14 (Supp. II 1984).

cally limited to the civil sanctions provided by the Lanham Act.⁷ The Act's original purpose was to codify the common law relating to unfair competition.⁸ Currently, registration under the Lanham Act provides for federal jurisdiction over a trademark infringement suit without the necessity of an amount in controversy.⁹ Under the Lanham Act, once a trademark infringement is established, damages, costs, profits, treble damages, and in "exceptional cases" attorneys' fees are recoverable in the court's discretion.¹⁰ The court also has the discretion to order destruction of all items bearing the registered mark, as well as the equipment used to produce the violative items and marks.¹¹

The registration of a trademark under the Lanham Act provides prima facie evidence of the registering party's ownership and gives the owner the exclusive right to use the symbol.¹² Registration is also constructive notice of a claim of ownership which eliminates the defense of good faith adoption of a mark.¹³ Under the Lanham Act, a trademark is considered infringed when a person, without consent of the registrant, uses a counterfeit registered mark in connection with the sale or advertisement of goods or services in a manner likely to cause confusion, mistake, or deception,¹⁴ or reproduces a registered mark and applies it to advertisements, labels, signs, prints, packages, wrappers, or receptacles intended to be used in connection with the sale of goods and services.¹⁵

The civil protections of the Lanham Act, however, have proven highly ineffective in dealing with a commercial counterfeiting problem that has grown into a billion dollar business.¹⁶ The lack of criminal

7. 15 U.S.C. §§ 1051-1127 (1976). The trademark owner will also record its trademark with the U.S. Customs Service. Upon recordation, the Customs Service will prevent goods bearing infringing marks from entering the United States. 15 U.S.C. § 1124 (1982); Tariff Act of 1930, 19 U.S.C. § 1526(e) (1982).

8. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 861 n.2 (1982).

9. 15 U.S.C. § 1121 (1982).

10. *Id.* § 1117.

11. *Id.* § 1118.

12. *Id.* § 1115(a).

13. *Id.* § 1072. But a good faith, honest belief that a mark does not infringe a registered mark does not meet the "knowledge" requirements for criminality under the Trademark Counterfeiting Act of 1984. See 130 CONG. REC. H12077 (daily ed. Oct. 10, 1984).

14. 15 U.S.C. § 1114(1)(a) (1982).

15. *Id.* § 1114(1)(b).

16. *Trademark Counterfeiting Act of 1983: Hearings on S. 875 Before the Subcomm. on Patents, Copyrights and Trademarks of the Senate Comm. on the Judiciary*, 98th Cong., 1st Sess. 15 (1983) (statement of Gerald J. Mossinghoff, Assistant Secretary of Commerce and

sanctions in this area¹⁷ has greatly diminished the Lanham Act's deterrent value. The civil penalties under the Lanham Act, even when taken to their monetary limit, are not severe enough to be effective.¹⁸ With the only apparent risk being financial loss and temporary shut-down, the large, well organized counterfeiting organizations have little incentive to curtail their fantastically lucrative operations.¹⁹

Further, judges have hesitated to use the broad discretionary powers granted to them under the Lanham Act, even when the most stringent penalties would seem to be called for.²⁰ Although there is no explanation for this, one theory is that since the Act applies to accidental as well as to purposeful infringements, and to infringements of unregistered marks,²¹ many judges assume a certain legitimacy of the parties involved, and are reluctant to apply the remedies provided by the Lanham Act.²² Regardless of the rationale, such decisions have led reformers to push for mandatory treble damages or treble profit recovery for intentional and knowing trafficking in counterfeit goods.²³

The problems caused by the discretionary remedies of the Lan-

Commissioner of Patents and Trademarks). Mossinghoff testified that it is generally believed that several billion dollars of counterfeit goods are sold annually.

17. Federal criminal sanctions have been available under the mail and wire fraud statutes to prosecute counterfeiters who use the mail or wires. 18 U.S.C. §§ 1341, 1343 (1982). These statutes, however, have a very limited effect on trademark counterfeiting. They only cover counterfeiting operations which to some degree use the mails or interstate wire services. The majority of product counterfeiting is done on a direct cash basis and makes little use of the mails or telephones in the solicitation, purchase or delivery stages. Also, the actual fraud in commercial counterfeiting usually only occurs in the ultimate sale to the consumer. Thus, only the small distributors at the end of the distribution chain can be prosecuted. At the higher levels of the operation it is difficult to prove fraud because all members involved are aware that the goods are counterfeit. Although a case may clearly involve product counterfeiting, the "fraud" requirement of the mail and wire fraud statutes prevents their meaningful use on a large scale counterfeiting operation. Further, the maximum fine under the mail and wire fraud statutes is only \$1000, and criminal penalties have rarely been imposed for this white collar crime. Thus, wire and mail fraud sanctions are not designed to effectively deal with the complexities of commercial counterfeiting.

18. S. REP. NO. 526, 98th Cong., 2d Sess. 5 (1984).

19. Rakoff & Wolff, *Commercial Counterfeiting And The Proposed Trademark Counterfeiting Act*, 20 AM. CRIM. L. REV. 145, 163 (1982).

20. See, e.g., *Playboy Enterprises, Inc. v. Baccarat Clothing Co.*, 692 F.2d 1272 (9th Cir. 1982), where the court of appeals reversed the district court's denial of plaintiff's request for lost profits and reasonable attorneys' fees. The court, however, refused to award treble damages even though "the defendants were guilty of willful trademark infringement" in their sales of counterfeit clothing. *Id.* at 1276.

21. Rakoff & Wolff, *supra* note 19, at 163.

22. *Id.*

23. See S. REP. NO. 526, *supra* note 18, at 6.

ham Act are amplified by the cost of enforcement. Victims of commercial counterfeiting incur great expense in tracking down and building a case against the alleged counterfeiters.²⁴ Firms such as Polo Fashions and Louis Vuitton S.A., annually spend large sums to hire investigators and attorneys exclusively to pursue suspected infringers and bring them to trial.²⁵

The weaknesses of the Lanham Act are readily apparent, and are easily exploited by large international counterfeiting organizations. For example, the burden of establishing damages is on the victim, and one of the main sources of damage is usually lost sales.²⁶ To show lost sales, however, the victim must rely upon the defendant's sales records.²⁷ Therefore, most commercial counterfeiters do not maintain such records (most do not sell on credit, and therefore there are no receipts or invoices), or destroy them long before the case gets to trial.²⁸ As a result, many manufacturers with well founded claims are discouraged from bringing suit when the difficulty in proving damages is considered in conjunction with the cost of taking the case to trial.

Two equitable remedies which have been creatively applied to commercial counterfeiters to deal with the apparent inadequacies of the Lanham Act, are the ex parte temporary restraining order and the ex parte search and seizure order. A lawyer who can make a strong preliminary showing that a commercial counterfeiting operation is functioning may be able to get either ex parte order.²⁹ The advantage of the search and seizure order is that it permits the legitimate manufacturer to seize a counterfeiter's goods, thus stopping the operation while preventing the destruction of evidence.³⁰

In the seminal case of *In re Vuitton et Fils S.A.*,³¹ it was established that the federal courts, under the power of Federal Rule of Civil Procedure 65(b), could issue an ex parte temporary restraining order where "(1) the failure to issue it would result in 'immediate and irreparable injury, loss, or damage' and [where] (2) the applicant suffi-

24. Rakoff & Wolff, *supra* note 19, at 163.

25. See, e.g., *United States ex rel. Vuitton et Fils S.A. v. Karen Bags, Inc.*, 592 F. Supp. 734 (S.D.N.Y. 1984); *Polo Fashions, Inc. v. Stock Buyers International, Inc.*, 760 F.2d 698 (6th Cir. 1985).

26. Bainton, *Seizure Orders: An Innovative Judicial Response To The Realities Of Trade-mark Counterfeiting*, 73 TRADE-MARK REP. 459, 462 (1983).

27. *Id.*

28. *Id.*

29. Rakoff & Wolff, *supra* note 19, at 166.

30. Bainton, *supra* note 26, at 462-63.

31. *In re Vuitton et Fils S.A.*, 606 F.2d 1 (2d Cir. 1979).

ciently demonstrates the reason that notice 'should not be required.'"³² The court went on to say that in trademark infringement cases, the substantial likelihood that the counterfeit goods will be confused with authentic goods constitutes sufficient irreparable injury.³³ The court also demonstrated its understanding of the unique problems associated with giving notice in commercial counterfeiting cases by stating that "[i]f notice is required, that notice all too often appears to serve only to render fruitless further prosecution of the action."³⁴

The effectiveness of the temporary restraining order was short lived, however. Counterfeiters responded by concealing their identities from their purchasers, maintaining few or no records of purchases or sales, and by dealing strictly in cash.³⁵ As discussed earlier, this leaves the trademark owner with little hope of proving the volume of the counterfeiter's sales, and thus he is unable to recover the counterfeiter's profits in civil litigation. To remedy this problem, district courts began to issue *ex parte* seizure orders. These orders allow United States Marshals, or private investigators employed by the trademark owner or its lawyers, to "enter a counterfeiter's premises, search and seize (a) all counterfeit merchandise there present, (b) all records relating to the distribution thereof and (c) all materials and apparatus used in its manufacture."³⁶ The seizure of goods, although creative, has a legal basis in section 36 of the Lanham Act, which allows for the delivery and destruction of infringing merchandise.³⁷

While the Lanham Act allows for the seizure of counterfeit goods, the seizure of any existing records is not as solidly grounded. Because of the importance of the counterfeiter's records to establish the trademark owner's damages,³⁸ and the chance that an infringer will conceal or destroy all records upon receipt of notice,³⁹ the courts have had to use other powers to supplement the Lanham Act in this area.⁴⁰ The Supreme Court has held that the due process requirement of notice may be side-stepped when the plaintiff can show that there is an immediate danger that the defendant will " 'destroy or conceal dis-

32. *Id.* at 5.

33. *Id.*

34. *Id.*

35. See Bainton, *supra* note 26, at 462.

36. *Id.* at 462-63.

37. *Id.* at 463; see 15 U.S.C. § 1118 (1982).

38. See Bainton, *supra* note 26, at 462, 465.

39. *Id.* at 462.

40. *Id.*

puted goods.' ”⁴¹

Perhaps the best legal authority for the seizure of records before the Trademark Counterfeiting Act of 1984⁴² was the All Writs Act,⁴³ which grants federal courts broad powers to curtail a party's efforts to defeat a court order.⁴⁴ Under the All Writs Act, judges have ample authority to order the seizure of records relating to counterfeit trademark goods.⁴⁵

The most recent extension of the Lanham Act to aid in the prosecution of trademark counterfeiters is the use of court approved sting operations. These operations go one step beyond the ex parte seizure orders by allowing a plaintiff's attorneys and investigators to orchestrate purchases and video tape the infringers as the deal is set up. By videotaping all the individuals involved in setting up the purchase, as well as the agent who makes the delivery, the larger as well as the smaller suppliers are often incriminated. In a recent case, *Vuitton et Fils S.A. v. Karen Bags, Inc.*,⁴⁶ a sting operation led to seven criminal contempt convictions. In *Vuitton*, the plaintiff obtained information that the defendants, who had previously been found in contempt of court for violating an injunction in a trademark infringement case, were still dealing in the counterfeit products. Plaintiff's attorney then sought and received an appointment as special prosecutor with regard to the further criminal contempt.⁴⁷

41. *Id.* at 464 (quoting *Fuentes v. Shevin*, 407 U.S. 67, 93 (1972)).

42. See *infra* notes 53-59 and accompanying text.

43. *Bainton*, *supra* note 26, at 465. The All Writs Act, codified at 28 U.S.C. § 1651 (1982), provides:

(a) The Supreme Court and all courts established by Act of Congress may issue all writs necessary or appropriate in aid of their respective jurisdictions and agreeable to the usages and principles of law.

(b) An alternative writ or rule nisi may be issued by justice or judge of a court which has jurisdiction.

44. *Bainton*, *supra* note 26, at 465; see also *Meyerson v. Werner*, 683 F.2d 723, 728 (9th Cir. 1982).

45. *Bainton*, *supra* note 26, at 466. In *Vuitton*, the district court stated:

Because we find that Rule 42 confers sufficient authority upon the Court to authorize a special prosecutor to undertake the activities performed in this case, we need not determine whether, as *Vuitton* contends, the All Writs Act, 28 U.S.C. § 1651, similarly empowers the Court to approve these actions. We would observe, however, that insofar as the All Writs Act has been construed to permit a federal court 'to issue such commands . . . as may be necessary or appropriate to effectuate and prevent the frustration of orders it has previously issued in its exercise of jurisdiction otherwise obtained,' *United States v. New York Telephone Co.*, 434 U.S. 159, 172 (1977), it also provides authority for the Court's order in this case.

Vuitton, 592 F. Supp. at 745.

46. 592 F. Supp. 734 (S.D.N.Y. 1984).

47. *Id.* at 737.

Injunctions are enforced through contempt proceedings,⁴⁸ which have a unique quasi-criminal status.⁴⁹ The *Vuitton* court held that where an injunction against dealing in a counterfeit product has already been entered, and it is evident that the injunction has been violated, the court may act pursuant to Rule 42(b) of the Federal Rules of Criminal Procedure and appoint the plaintiff's attorney to prosecute the charges.⁵⁰ Further, the court ruled that the special prosecutor's authority under Rule 42 extends to investigation of wrongdoing as well as to the presentation of evidence in court.⁵¹ Plaintiff's attorney, as federal prosecutor, also had the authority to engage in wiretapping and videotaping which were valid and permissible under federal law.⁵² The in court use of video taped sting operations are to date the most effective method of convicting and deterring commercial counterfeiters, and, combined with the new penal sanctions provided for in the Trademark Counterfeiting Act of 1984, may lead to a more meaningful attack on the problem.

The major problem with ex parte seizures and sting operations prior to the 1984 trademark law is that they were discretionary. There was never any guarantee that a judge would be willing to take the extreme steps necessary to allow for effective prosecution and deterrence.

B. Trademark Counterfeiting Act of 1984

After two years of legislative deliberation, on October 12, 1984 the Trademark Counterfeiting Act of 1984 became law.⁵³ This legislation added to the protection given by the Lanham Act and began a new era in the control of counterfeiters. The 1984 Act effectuates three principle changes in the law: (1) knowingly and intentionally dealing in counterfeit materials is now a criminal offense;⁵⁴ (2) the award of treble damages and attorneys' fees in counterfeiting cases is

48. Contempt proceedings may be filed in the district court where the injunction was issued or in another district where the defendant can be found. 15 U.S.C. § 1116 (Supp. II 1984).

49. *Vuitton*, 592 F. Supp. at 741.

50. *Id.* at 740.

51. *Id.* at 744.

52. *Id.* at 747. Defendants' post trial motions for a due process hearing, to set aside verdicts, and to dismiss the order to show cause under which they were initially accused of criminal contempt or for a new trial, were denied in *United States ex rel. Vuitton et Fils S.A. v. Karen Bags, Inc.*, 602 F. Supp. 1052 (S.D.N.Y. 1985).

53. 15 U.S.C. § 1117(b) (Supp. II 1984), 18 U.S.C. § 2320 (Supp. II 1984).

54. 18 U.S.C. § 2320(a) (Supp. II 1984).

now virtually mandatory in civil counterfeiting cases;⁵⁵ and (3) the law explicitly authorizes ex parte seizure of counterfeit goods from persons likely to conceal or destroy them if given notice of a pending lawsuit.⁵⁶

1. Criminal sanctions

The criminalization of trademark counterfeiting is a long awaited reform. The first part of the Trademark Counterfeiting Act of 1984 amends title 18 of the United States Code by adding section 2320. Under section 2320, an individual who is convicted of intentionally and knowingly trafficking in goods or services using a counterfeit mark can be fined up to \$250,000 and/or imprisoned up to five years.⁵⁷ For a second offender, the penalties can go up to \$1,000,000 and/or 15 years in prison.⁵⁸ Corporations and other such entities can be fined up to \$1,000,000 for a first offense, and not more than \$5,000,000 for a second offense.⁵⁹

By making intentional trademark counterfeiting a federal felony with potentially severe penalties, the 1984 Act should have substantial force as a deterrent, and may put first time offenders out of business for good. The new legislation also allows for flexibility. A less blame-worthy defendant, for example a small distributor in a large operation, might be given a large fine, rather than being imprisoned.

2. Lanham Act amendments

a. damages

The other two major reforms to trademark law came as amendments to the Lanham Act. The first reform adds a mandatory award of treble damages or profits, whichever is higher, and attorneys' fees unless the court finds "extenuating circumstances."⁶⁰ This is designed to ensure that a deserving victim will recover costs and damages.⁶¹ Liability arises when the plaintiff shows that the defendant knowingly

55. 15 U.S.C. § 1117(b) (Supp. II 1984).

56. *Id.* § 1116(d)(1)(A).

57. 18 U.S.C. § 2320(a) (Supp. II 1984).

58. *Id.*

59. *Id.* An individual or corporate defendant will not be liable for the increased penalties for a second offense unless that defendant has been convicted of the first offense before the occurrence of the event giving rise to the second offense. 130 CONG. REC., *supra* note 13, at H12083.

60. 15 U.S.C. § 1117(b) (Supp. II 1984).

61. S. REP. NO. 526, *supra* note 18, at 6.

and intentionally used a counterfeit mark, in connection with a sale, offering for sale, or the distribution of goods or services.⁶² The explanatory statement accompanying the legislation makes it clear that Congress intends that the "extenuating circumstances" are highly unlikely to exist where the defendant has intentionally dealt in known counterfeits.⁶³ Further, the legislative explanation makes it clear that investigators' costs are to be added to attorneys' fees if the investigators acted with the plaintiff's attorney.⁶⁴ Thus, another problem under the Lanham Act apparently has been remedied. The great financial burden placed on plaintiffs to track down counterfeiters is relieved—at least to the extent that plaintiffs are assured of a damages award which is sufficiently compensatory, punitive, and is a deterrent to future counterfeiting.⁶⁵

b. seizures

The third major reform in the 1984 Act explicitly authorizes the ex parte seizure orders discussed earlier.⁶⁶ Under the previous case law, federal district courts had granted ex parte seizure orders in trademark counterfeiting cases, but the federal court of appeals had yet to approve or disapprove such an order. This codification will ensure that under the appropriate circumstances ex parte seizures will be available in every federal court in the country.

These orders are clearly necessary in the commercial counterfeiting area, where infringers are especially likely to conceal or destroy any existing goods or records, which the plaintiffs need for their damages claim. This provision was the greatest source of controversy in the 1984 Act, as retailers feared that it might give trademark owners too much power to disturb sellers with surprise seizures.⁶⁷ This problem was dealt with in the final version of the Act by authorizing the seizures only if the plaintiff can show that the defendant, or persons

62. 15 U.S.C. § 1117(b) (Supp. II 1984).

63. 130 CONG. REC., *supra* note 13, at H12083.

64. *Id.*

65. See *supra* notes 20-25 and accompanying text. The Committee on the Judiciary states two primary goals for the mandatory award of treble damages (or profits) and costs. First, the awards are meant to be a form of punitive damages and thus a significant deterrent to and punishment of counterfeiters. Second, to aid busy federal prosecutors, the mandatory awards are designed to encourage private victims to bring civil suits. S. REP. NO. 526, *supra* note 18, at 6.

66. 15 U.S.C. § 1116(d) (Supp. II 1984).

67. Mathias, *Trademark Counterfeiting Act of 1984 Becomes Law*, 3 I.A.C.C. BULL. 2 (1984).

acting in concert with the defendant, would be likely to conceal or destroy the goods in question.⁶⁸

Another source of controversy regarding the ex parte seizure orders was the seizure of business records. As previously noted, such records are often a crucial part of the plaintiff's case for damages.⁶⁹ Clearly such records should be contained within the seizure order, because of the ease with which they can be destroyed. Special concerns accompany the seizure of records, however, because of the potential for abuse and the vital importance of keeping the trade and business secrets of a company confidential.⁷⁰ The 1984 Act attempts to resolve this problem by providing for procedural protections for the defendant. All seized documents are to be immediately placed into the custody of the court and will be released only when the court is sure that legitimately confidential information will not pass into the hands of the plaintiff.⁷¹

Other areas of trademark infringement are also addressed by the 1984 Trademark Counterfeiting Act. While the Act is only applicable to counterfeits of registered trademarks, it is irrelevant whether or not the defendant had knowledge of the fact that the particular trademark was registered.⁷² Under the Act, "gray market" goods—those which are produced for sale overseas with the approval of the trademark owner, but are imported into the United States against the owner's wishes—are not considered "counterfeit" since they were manufactured with the trademark owner's permission.⁷³ "Overruns"—goods produced by a licensee of the trademark owner without the owner's permission—are also excluded from coverage under the Act.⁷⁴

3. Problems under the 1984 Act

The seizure orders are to be carried out by U.S. Marshals. A representative of the trademark owner may accompany them and offer necessary assistance as to which items and records should be confiscated.⁷⁵ This may, however, lead to violations of the procedural protections afforded the defendant's business records. The 1984 Act

68. 130 CONG. REC., *supra* note 13, at H12080.

69. See *supra* notes 26-28 and accompanying text.

70. 130 CONG. REC., *supra* note 13, at H12082.

71. *Id.*

72. *Id.* at H12077.

73. *Id.* at H12079.

74. *Id.*

75. *Id.* at H12082.

gives judges discretionary power to provide an order which will appropriately protect the defendant.⁷⁶ Nonetheless, this is a potential problem area in the Act, since the defendant will not be there to insure that such an order is adequate to protect its interests.

Another problem under the new legislation is that the requirement that a U.S. Marshal be on hand to conduct the seizure may prove to be impractical.⁷⁷ As with any governmental resource, U.S. Marshals are limited in number, and are used in many capacities. A successful sting or seizure operation may necessitate raids on many different locations simultaneously. Under the new Act a Marshal is apparently required to be present at every location. Realistically, a judge may face a situation in which there are not enough Marshals to cover an *ex parte* seizure.⁷⁸ Under the Lanham Act, judges were not specifically guided in this area, and thus turned to their general powers under the All Writs Act to appoint privately hired investigators to conduct the *ex parte* seizures. It would seem that this power still exists, but judges might be more reluctant to use it because of the specific guidelines provided in the 1984 Act.⁷⁹ Thus, in this area, the new law may lead to delays and decreased efficiency.

By providing for: (1) criminal penalties for trademark infringement; (2) a presumption in favor of treble damages and attorneys' fees; and (3) the *ex parte* seizure remedy in all federal courts, the Trademark Counterfeiting Act of 1984 attacks the former weaknesses in trademark protection under the Lanham Act and provides new, viable weapons in the fight against commercial counterfeiting.

III. COPYRIGHT

Counterfeiting is a chronic problem in the area of copyright infringement. The main area of concern has been the record and tape industry.⁸⁰ As many as one in four records and tapes in United States retail stores may be counterfeit, with up to ninety percent of the record stores carrying at least some bogus inventory.⁸¹ Despite high

76. *Id.*

77. *Id.*

78. Telephone interview with J. Joseph Bainton, counsel for Louis Vuitton S.A., and member of the firm of Reboul, MacMurray, Hewitt, Maynard & Kristol, New York, N.Y. and Los Angeles, California (Nov. 5, 1984).

79. *Id.*

80. As used here, "industry" includes phonograph records, recorded tapes, master records and tapes, and video tapes.

81. TRADE COMMISSION REPORT, *supra* note 1, at 47. In March of 1985, MCA Inc. uncovered a large scale illegal tape duplicating operation affecting major record chains around

losses in sales due to counterfeiting,⁸² the record and tape industry is one of the few which has not seen an increase in counterfeiting over the last few years.⁸³ Counterfeiting in this area seems to have advanced to the point that new sources of counterfeits arise at about the same rate that they are eliminated.⁸⁴

The Piracy Counterfeiting Act of 1982 supplements federal copyright law⁸⁵ by providing increased criminal penalties for record, tape, and motion picture piracy. In an area of widespread counterfeiting, this legislation was designed to provide a significant deterrent.

A. Civil Actions

In order to bring an action for copyright infringement the work must either be registered with the Copyright Office, or the owner must have attempted to register the work and been refused by the Copyright Office.⁸⁶ The civil remedies available under the Federal Copyright Act are similar to those available under the Lanham Act. A copyright infringer is liable for the copyright owner's actual damages, and must disgorge any profits realized from the infringement.⁸⁷ As an alternative, the copyright owner may elect to recover statutory damages instead of actual damages and profits at any time before final

the country. Major chains who had unknowingly carried the stock included Tower Records and Licorice Pizza in Los Angeles, and Crazy Eddie's, Record World, Disc-O-Mat and King Karol in New York. L.A. Times, Mar. 15, 1985, part 1, at 1, col. 4.

82. Counterfeit and pirate records and tapes reportedly cost U.S. companies \$400,000,000 in sales in 1982. See TRADE COMMISSION REPORT, *supra* note 1, at 49.

83. Lost sales in 1982 had dropped from \$525,000,000 in 1980. *Id.*

84. *Id.* at x. For example, although losses seem to be declining slightly overall, the March 1985 seizure, *supra* note 81, was unique for two reasons. First, the target of the counterfeiters was the older "midline" releases which are usually sold at reduced prices, instead of the usual current hit target. This enabled the counterfeiters to take advantage of the cover of the record company's own sales on discontinued or "cutout" records. The invoices are used to cover the manufacture of more products. Second, the counterfeiters concentrated on only one label, MCA. Thus the industry's own counterfeiting watch dog, the Recording Industry Association of America, has stayed out of the matter entirely since it was set up only to deal with those matters having a widespread effect on the industry. Record companies such as MCA depend heavily on midline sales, and thus this new threat appears to be substantial. L.A. Times, *supra* note 81, at 1, 11, 12.

85. The federal copyright law is codified at 17 U.S.C. §§ 101-914 (1982 & Supp. II 1984).

86. *Id.* § 411(a) (1982).

87. *Id.* § 504(b). To establish the infringer's profits, "the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." *Id.*

judgment.⁸⁸

Injunctive relief is also available "to prevent or restrain infringement of a copyright."⁸⁹ Preliminary injunctions are available in the court's discretion,⁹⁰ and permanent injunctions are available, in addition to damages awards, when it is demonstrated that there is the probability of additional or continuing infringements.⁹¹

While an action is pending, the court may order the impoundment of all allegedly infringing articles, as well as the means used to produce them.⁹² Furthermore, as a part of a final judgment the court may order the "destruction or other reasonable disposition" of all infringing copies and their means of reproduction.⁹³ In civil actions, the court may also order full costs,⁹⁴ including reasonable attorneys' fees, to the prevailing party.⁹⁵

B. Criminal Actions

Section 506(a) of the Copyright Act provides that "any person who infringes a copyright willfully and for purposes of commercial advantage or private financial gain" has committed a criminal offense.⁹⁶ Most copyright counterfeiters clearly fall within this category.

To help deter counterfeiting and pirating problems in the record, tape, and motion picture industries, criminal penalties were enhanced

88. *Id.* § 504(c). Under this section, the statutory damages are between \$250 and \$10,000 "as the court considers just." *Id.*

89. *Id.* § 502(a) (1982).

90. In granting a preliminary injunction

the issue before the court is not whether there is infringement as a matter of law, but rather whether the evidence upon such motion convinces the court that the plaintiff will ultimately prevail at trial. . . . The court may nevertheless deny a preliminary injunction if the plaintiff's damages appear to be trivial, or if such an injunction might work an injury to the defendant out of proportion to the damages which might result to the plaintiff by failure to issue the injunction, or if the plaintiff fails to indicate a sufficient likelihood of immediate irreparable injury to justify granting such relief. . . .

M. NIMMER, NIMMER ON COPYRIGHT § 14.06[A], at 14-46-14-49 (1985).

91. 17 U.S.C. § 502(a) (1982). *See also* M. NIMMER, *supra* note 90, § 14.06[B], at 14-55.

92. 17 U.S.C. § 503(a) (1982).

93. *Id.* § 503(b). Infringing products, however, need not be wasted. *See, e.g.*, *Encyclopaedia Britannica Educational Corp. v. Crooks*, 558 F. Supp. 1247 (W.D.N.Y. 1983).

94. 17 U.S.C. § 505 (1982). Full costs can be awarded "by or against any party other than the United States or an officer thereof." *Id.*

95. *Id.*

96. *Id.* § 505(b).

by the Piracy and Counterfeiting Amendments Act of 1982.⁹⁷ Under the 1982 Act, piracy and counterfeiting of records, tapes (sound recordings), motion pictures, and audio visual works is now a felony for a first offender,⁹⁸ with a maximum fine of \$250,000 (up from \$50,000) and up to five years in jail (up from two years) for convicted parties.⁹⁹ In "any other case" of copyright infringement, the convicted infringer "shall be fined not more than \$25,000 or imprisoned for not more than one year, or both."¹⁰⁰ This penalty is to be applied to infringements of all works other than motion pictures, audio visual works, and sound recordings.¹⁰¹ It is also applicable to cases involving no more than 100 sound recording infringements, or no more than seven infringing copies of motion pictures or other audio visual works.¹⁰²

If a criminal conviction is obtained, the court must also order the forfeiture, destruction, or other disposition of criminally infringing copies.¹⁰³ Knowingly and willfully aiding and abetting any such infringement will result in the same penalties.¹⁰⁴

For there to be a criminal infringement under the 1982 Act, the conduct must also give rise to civil liability, even though no civil action need be filed. The requirement that a work be registered with the Copyright Office before bringing a civil action for infringement also has been held applicable to criminal actions.¹⁰⁵ Unlike civil actions, criminal infringements require specific intent.¹⁰⁶ For the counterfeiters to be criminally liable, their infringements must also be "for purposes of private gain or advantage."¹⁰⁷

The criminal sanctions established by the Piracy Counterfeiting Act of 1982, although harsh, are designed to deter and punish the large scale counterfeiter, such as those affecting the record and tape industry, who because of their high profit margins, are not deterred by

97. The Piracy Counterfeiting Act of 1982 deleted portions of section 506(a) and incorporated by reference new section 2319 of title 18.

98. M. NIMMER, *supra* note 90, § 15.01, at 15-1.

99. The estimated loss of domestic record and tape sales due to piracy and counterfeiting was down \$182 million in 1982. See TRADE COMMISSION REPORT, *supra* note 1, at 49.

100. 18 U.S.C. § 2319(b)(3) incorporated by reference in 17 U.S.C. § 506(a) (Supp. II 1984).

101. M. NIMMER, *supra* note 90, § 15.01, at 15-3.

102. *Id.*

103. 17 U.S.C. § 506(b) (Supp. II 1984).

104. *Id.*

105. M. NIMMER, *supra* note 90, § 15.01, at 15-3.

106. 17 U.S.C. § 505 (Supp. II 1984).

107. *Id.* Thus, copies which are not made for profit are subject to civil penalties but not criminal penalties.

civil sanctions. The decline in estimated losses in domestic sales in these areas may already reflect the effects of the 1982 Act.

IV. SEMICONDUCTOR CHIP PROTECTION

Counterfeiters have in the past targeted labor intensive industries, typically those with popular brand names such as designer clothing, jewelry, watches, records, and tapes.¹⁰⁸ These products are usually in high demand, yet start up production costs are relatively low.¹⁰⁹ Recently, however, counterfeiters motivated by limited risks and great potential profits have infiltrated the capital-intensive industries such as computer hardware and automobile parts.¹¹⁰ One area which has been invaded by counterfeiters is the semiconductor chip industry. Until recently there has been no clear means of protecting semiconductor chips from chip piracy.¹¹¹ Traditional copyright, patent, and trade secret laws have proven ineffective in protecting semiconductor chips from piracy.¹¹² On October 9, 1984, Congress passed the Semiconductor Chip Protection Act of 1984 as a first step in deterring counterfeiters in this capital intensive industry.

A. *The Problem*

Over the last twenty years, the vast growth in the United States electronics industry has been largely due to the development of the semiconductor chip.¹¹³ However, continued growth in this area is dependant upon sufficient protection against piracy of semiconductor circuit layout patterns or "masks." A new line of chips can take years to develop at a cost of up to \$100,000,000.¹¹⁴ The same chip family can be copied for less than \$1,000,000.¹¹⁵ Because counterfeiting firms have much lower research and development costs to recover in product sales, they can drive down the price and greatly reduce the

108. TRADE COMMISSION REPORT, *supra* note 1, at ix.

109. *Id.*

110. *Id.*

111. S. REP. NO. 425, 98th Cong., 2d Sess. 6-9 (1984). The problem in the semiconductor chip industry actually involves chip "piracy" whereby chip designs are copied and used in products which compete with American made goods. 129 CONG. REC. S5992-93 (daily ed. May 4, 1983).

112. *Id.*

113. *Id.* at 4.

114. *Id.* at 5.

115. *The Semiconductor Chip Protection Act of 1983: Hearings on S. 1201 Before the Subcomm. on Patents, Copyrights & Trademarks of the Senate Comm. on the Judiciary*, 98th Cong., 1st Sess. 66, 75-76, 78-79 (1984) [hereinafter cited as *Hearings on Semiconductor Chip Protection Act*].

legitimate firm's return on investment.¹¹⁶ This reduced return on investment can mean millions of dollars annual lost profits to the legitimate investing firm.¹¹⁷ Thus, semiconductor chip piracy produces a severe disincentive to continued research and development,¹¹⁸ and could lead to a decline in American leadership in the semiconductor industry.¹¹⁹ A corresponding decline in the national economy would surely follow.

B. Prior Law

Previously existing intellectual property laws did not provide adequate protection against pirating of semiconductor chips.¹²⁰ To qualify for copyright protection, chips or chip designs must meet at least four standards of traditional copyright law:

copyright does not protect useful articles *per se*; copyright protects the design of a useful article only to the extent that it can be identified separately from, and is capable of existing independently of, the utilitarian aspects of the article; copyright in a drawing or other representation of a useful article does not protect against unauthorized duplication of the useful article; and copyright protects only expression, not ideas, plans, or processes.¹²¹

Semiconductor chips are generally considered utilitarian articles and thus are not protected by copyright law.¹²² Historically, the layout of circuit boards, the imprinted patterns (topology) in chips, as well as the printed circuit boards and the chips themselves, have been denied copyright registration by the Copyright Office.¹²³

Patent law is similarly ineffective. Patent law can protect the basic electronic circuitry of a new chip, but does not protect the intricate layout and artwork necessary to adapt the circuitry to a particular industrial purpose.¹²⁴ But it is these design specifications which cost millions of dollars to produce, and are copied by chip pirates for considerably less.¹²⁵ Another problem with patent law is that it takes

116. *Id.* at 123-26.

117. *Id.* at 126.

118. S. REP. NO. 425, *supra* note 111, at 6.

119. *Id.*

120. *Id.*

121. *Hearings on Semiconductor Chip Protection Act*, *supra* note 115, at 27-28.

122. S. REP. NO. 425, *supra* note 111, at 6-7.

123. *Hearings on Semiconductor Chip Protection Act*, *supra* note 115, at 28-29.

124. S. REP. NO. 425, *supra* note 111, at 8.

125. *Id.* Professor Arthur Miller described the problems of trying to protect semiconductor chips with patent law before the subcommittee in 1983.

time to get a patent.¹²⁶ In the semiconductor chip industry, rapid technological advancement limits the value of the time consuming patenting process.¹²⁷

Trade secret law is also ineffective in protecting semiconductor chips from piracy. Since a chip design is unavoidably printed on every chip, the secrecy of a chip layout is lost when the chips go on sale.¹²⁸

C. Semiconductor Chip Protection Act of 1984

The Semiconductor Chip Protection Act of 1984¹²⁹ provides for a new form of protection independent of copyright and patent law. This *sui generis* form of protection is similar to copyright law, but only applies to a "mask work" or the "series of related images embodying the pattern of the surface of the layers of semiconductor chips."¹³⁰ Such an approach is appropriate because semiconductor chips are a truly unique form of expression, and should be placed within a separate category.¹³¹

The Act provides protection for semiconductor chips through registration rather than through a system of examination.¹³² This avoids the delay involved in the patent system,¹³³ thus allowing quick and inexpensive protection against piracy.¹³⁴ For a chip to qualify for protection under the Act, application for registration must be made

For an alleged invention to qualify as a utility patent, it must be novel and not 'obvious.' 35 U.S.C. § 103. The Supreme Court has said that the patent clause in the Constitution, Article I, § 8, cl. 8, mandates a high standard of inventiveness, which is codified in 35 U.S.C. § 103, and that patents cannot lawfully be granted for slight advances in technology. See *Graham v. John Deere Co.*, 383 U.S. 1 (1966). As a practical matter, the layout of a chip, as embodied in a mask, will rarely, if ever, satisfy this standard of invention. A chip may be the product of millions of dollars and thousands of hours of effort, but it is the result of hard work, not 'invention.'

Id. at 8.

126. *Id.* at 8-9. The patenting process can take up to several years. While the Patent Office is reducing these delays, part of the problem is inherent in a system which requires an examination of prior art before awarding protection. *Id.* The system is clearly unworkable in a rapidly changing technological field. See *Hearings on Semiconductor Chip Protection Act*, *supra* note 115, at 50-51. Moreover, there is always the chance that a patent may not be upheld by the courts. *Id.*

127. *Hearings on Semiconductor Chip Protection Act*, *supra* note 115, at 50-51.

128. S. REP. NO. 425, *supra* note 111, at 9.

129. Semiconductor Chip Protection Act of 1984, 17 U.S.C. §§ 901-14 (Supp. II 1984).

130. See S. REP. NO. 425, *supra* note 111, at 10.

131. 130 CONG. REC. S12920 (daily ed. Oct. 10, 1984) (statement of Sen. Mathias).

132. 17 U.S.C. § 908(a) (Supp. II 1984).

133. See *supra* note 126 and accompanying text.

134. 130 CONG. REC., *supra* note 131, at S12920.

"within two years after the date on which the mask work is commercially exploited anywhere in the world."¹³⁵ This extends protection to chips that entered the market as early as July 1, 1983.¹³⁶ Congress, however, did not intend to allow for piracy of chips marketed before the cutoff. All present or future legal protection for semiconductor chips introduced prior to July 1, 1983, is not vitiated by the 1984 Act.¹³⁷ Chip design protection under the new Act lasts for ten years.¹³⁸

The registered owner of a chip design is given the exclusive right to reproduce, import, and distribute a chip embodying the design, or to authorize another to do so.¹³⁹ These exclusive rights are subject to two exceptions. The first exception is the right to "reverse engineering":¹⁴⁰ the mask work (not the semiconductor chip) can be reproduced if used solely for the purpose of "teaching, analyzing, or evaluating the concepts or techniques embodied in the mask work or the circuitry, logic flow, or organization of components used in the mask work"¹⁴¹

The second exception provides for a limited immunity for innocent infringers of the rights of the chip design.¹⁴² Innocent purchasers and users are not liable for infringements which occur before they have reasonable notice of the protection of the semiconductor chip product.¹⁴³ An innocent dealer in chips shall be liable only for a reasonable royalty on each unit of the infringing semiconductor chip purchased before notice of protection, but which is sold after notice of protection.¹⁴⁴ This limited liability does not apply to the purchaser who, prior to purchasing the chips, has notice of the protection of the mask work under the Act.¹⁴⁵

135. 17 U.S.C. § 908(a) (Supp. II 1984).

136. Chips that were marketed before the enactment of the new semiconductor law and after July 1, 1983 will eventually enjoy full status after a compulsory two year license. This two year license is designed to allow the sale of copied chips which were innocently purchased before the enactment of the 1984 Act, as long as the seller agrees to pay a reasonable royalty. 130 CONG. REC., *supra* note 131, at S12920.

137. *Id.*

138. The ten year period begins either upon commercial exploitation, or registration, whichever comes first. 17 U.S.C. § 904(b) (Supp. II 1984).

139. *Id.* § 905.

140. *Id.* § 906.

141. *Id.* § 906(a).

142. *Id.* § 907.

143. *Id.* § 907(a)(1).

144. *Id.* § 907(a)(2).

145. *Id.* § 907(d).

The 1984 Act also provides for protection of foreign mask works in the United States by providing for international transitional provisions.¹⁴⁶ Protection for foreign semiconductor chip producers in the United States can be obtained in several ways. First, foreign mask works can be protected by transferring all rights in the product to a United States national or domiciliary before the mask work is commercially exploited, or by originally introducing the mask work in the United States.¹⁴⁷ Second, the Secretary of Commerce can grant direct protection under the Act to nationals of foreign countries if three conditions are met:¹⁴⁸ (1) the foreign country is making progress in the direction of mask work protection either by entering into a treaty or enacting legislation; (2) the nationals, domiciliaries, and sovereign authorities of that country or persons controlled by them are not pirating mask works; and (3) the issuing of the protective order would promote the purposes of the Act and international comity with respect to the protection of mask works.¹⁴⁹ The Secretary's authority under this section terminates three years from the enactment of this chapter.¹⁵⁰ Thus, the 1984 Act also provides for international comity in the semiconductor chip area by allowing for foreign producers of semiconductor chips to benefit from the 1984 Act for three years if they in turn make efforts to protect the rights of United States companies in their own countries.

The remedies under the Act are civil,¹⁵¹ not criminal, and may include: court ordered impounding of pirate chip products and the means by which they were made at any time while an action is pending;¹⁵² destruction or other disposition of the pirated products in a final judgment; injunctive relief—temporary restraining orders, preliminary, and permanent injunctions—as deemed reasonable by the courts to prevent further infringement;¹⁵³ actual damages and infringer's profits,¹⁵⁴ or, upon pre-judgment election, statutory damages up to \$250,000.¹⁵⁵ A court may also order recovery of full costs in-

146. *Id.* § 914.

147. *Id.* § 902(a)(1)(A),(B).

148. *Id.* § 914(a)(1).

149. *Id.* § 914(a).

150. *Id.* § 914(e).

151. *Id.* § 911.

152. *Id.* § 911(e).

153. *Id.* § 911(a).

154. *Id.* § 911(b).

155. *Id.* § 911(c).

cluding reasonable attorneys' fees to the prevailing party.¹⁵⁶ An action for infringement must be commenced within three years of the accrual of the claim.

Thus, the Semiconductor Chip Protection Act of 1984 creates a new form of protected intellectual property, and is the first important step in protecting the United States' vital semiconductor industry.

V. CONCLUSION

In recent years, commercial counterfeiters have posed a new threat to American industry. To help relieve this threat, Congress has recently enacted three new federal laws. The Trademark Counterfeiting Act of 1984, in an attempt to deter and punish counterfeiters, adopts new civil and criminal sanctions to enhance the protection of trademark holders. The mandatory award of treble damages and attorneys' fees punishes the counterfeiter, and more fully compensates the trademark owner—problems not adequately addressed by the discretionary remedies of the Lanham Act. The increased availability of the ex parte seizure order will help thwart the counterfeiter's attempts to conceal or destroy the bogus goods and/or their records.

The Piracy Counterfeiting Act of 1982 establishes more severe criminal penalties for record, tape, and motion picture counterfeiters. These penalties are designed to more effectively deter and punish counterfeiters who, because of high profit margins, are not deterred by civil sanctions.

The Semiconductor Chip Protection Act of 1984 is Congress' first attempt to protect the United States' successful and important semiconductor industry. The Act creates a *sui generis* form of protection designed to cope with the unique problems of the rapidly advancing semiconductor chip industry. The civil penalties provided by this Act are designed to compensate plaintiffs while preventing further infringement.

These three Acts are positive steps in the protection of American industry in the face of the increasing threat from foreign and domestic counterfeiters. Congress will hopefully continue these steps and amend and improve these Acts as the challenge of the commercial counterfeiter continues to evolve.

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156. *Id.* § 911(f).